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Influence of Good Corporate Governance on Tax Avoidance (Case Study: Real Estate Sector Companies Listed on the Indonesia Stock Exchange 2017-2020)

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Abstract

This study aims to determine the effect of independent commissioners, managerial ownership, and institutional ownership on tax avoidance in real estate sector companies listed on the Indonesia Stock Exchange for the 2017-2020 period. The research method uses a quantitative approach based on positivism with the formulation of an associative problem in the form of a causal relationship. The population used in this study are all real estate sector manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020. Sampling using purposive sampling method with a total sample of 56. The data analysis technique used in this research is quantitative data analysis methods including descriptive analysis, classical assumption test, multiple regression test, coefficient of determination test, and hypothesis testing using the Statistical Package for Social Sciences. The results showed that the independent board of commissioners had no effect on tax avoidance. While managerial ownership, institutional ownership has an effect on tax avoidance. Independent commissioners, managerial ownership and institutional ownership have a simultaneous effect on tax avoidance, with a coefficient of determination of 47.2%.

Keywords: Independent Board of Commissioners, Managerial Ownership, Institutional Ownership, Tax Avoidance.

INTRODUCTION

Taxes are the main source of state revenue. Based on the Law of the Republic of Indonesia Number 28 of 2007 it is explained that "Tax is a mandatory contribution to the state that is owed by an individual or entity that is coercive in nature based on the law, with no direct compensation and is used for the needs of the state for the greatest prosperity of the people." (Indonesia, 2007). From this understanding, it can be said that taxes play an important role in the life of the state, which is used to finance state expenditures and also efforts to improve the country's economy.

Table 1 Target and Realization of Tax Revenue for 2016-2020 (in Trillion Rupiah)

Year	2016	2017	2018	2019	2020
Target	1.539,16	1.472,71	1.618,09	1.786,38	1.404,51
Realization	1.284,77	1.343,52	1.518,79	1.546,13	1.285,14
Percentage	**83,47%**	**91,23%**	**93,86%**	**86,55%**	**91,5%**

Based on Table 1, it shows that the percentage of realized tax revenues has an increasing trend almost every year, only tax revenues in 2019 have decreased significantly by 7.31%, but after that the percentage of realized tax revenues has increased again (Putri, 2018). Indicators of the level of tax payment compliance in a country can be seen from the country's tax ratio (Sunarsih & Handayani, 2018). The tax ratio provides an overview of the amount of tax collected with the national income of a country at a certain time. The higher the tax ratio of a country, the better the performance of that country's tax collection (Niandari, Yustrianthe, & Grediani, 2020). Even though it has increased almost every year, the tax ratio obtained by Indonesia is the lowest among the tax ratios in other ASEAN countries (Pohan, 2008).

According to the Organization for Economic Co-operation and Development (OECD) Based on data published by the OECD in the Revenue Statistics in Asia and the Pacific 2021 report, Indonesia's tax ratio was recorded at 11.6% and only higher than Laos and Bhutan. (Governance, 2006). When compared to the average tax ratio in Asia and the Pacific, Indonesia's tax ratio is also far below the average. The OECD noted that the average tax ratio of 24 Asian and Pacific countries surveyed was 21%. Not only that, the OECD also assesses that Indonesia's tax ratio is also lower than the average tax ratio of 30 African countries (Sugiarto, 2009). It was recorded that the average tax ratio of African countries was able to reach 16.6%. This shows that tax revenue in Indonesia is not optimal compared to other ASEAN countries (Martin & Herrero, 2018).

Tax avoidance is a scheme that aims to minimize the tax burden by taking advantage of loopholes in tax provisions. Tax avoidance does not violate the provisions of taxation so that it is legal. However, this will have an impact on tax revenues which will decrease (Permana & Zulaikha, 2015). One of the factors that influence tax avoidance by companies is corporate governance (Dewi, 2008). Based on information from the Organization for Economic Co-Operation and Development (OECD), corporate governance is the quality of corporate governance that regulates the relationship between company management, shareholders, and other internal and external company stakeholders (Wardani, Anggra, & Amirah, 2016).

The implementation of good corporate governance is expected to improve the quality and transparency of the company's financial statements (Lanis & Richardson, 2012), so that information related to the company is presented truthfully. Appropriate financial information will certainly reduce conflicts within the company, one of which is the practice of tax avoidance (Governance, 2006). Good corporate governance is an important point in the context of restoring business activities and economic growth. Weak corporate governance is considered to be the cause of the bankruptcy of several companies in Indonesia. Therefore, the company has started to focus on corporate governance (Kovermann & Velte, 2019).

In this study, tax avoidance is proxied by the ratio of Effective Tax Rate (ETR). ETR explains the percentage or ratio between the company's income tax burden that must be paid to the government from the company's total income before tax

(Wardani et al., 2016). The higher the CETR percentage level, which is close to the corporate income tax rate of 25%, indicates that the lower the company's tax avoidance level, on the contrary, the lower the CETR percentage level indicates that the higher the company's tax avoidance level (Ariawan & Setiawan, 2017).

LITERATURE REVIEW

This theory was put forward by Michael C. Jensen and Wiliam H. Meckling (1976), agency relationships arise when one or more people (principals) hire another person (agent) to provide a service and then delegate decision-making authority to the agent (Jensen & Meckling, 1976)(Luayyi, 2010).

Independent Board of Commissioners

Winata (2014), the board of directors functions to manage the company, while the board of commissioners functions to supervise. In addition, the independent commissioner serves as a balancing force in decision-making by the board of commissioners (Winata, 2014).

Hypothesis 1: Significant influence between the Independent Board of Commissioners on Tax Avoidance.

Managerial Ownership

According to Christiawan and Tarigan (2007), managerial ownership is a condition in which the manager owns the company's shares or in other words, the manager is also a shareholder of the company (Christiawan & Tarigan, 2007).

Hypothesis 2: Significant influence between Managerial Ownership on Tax Avoidance.

Institutional Ownership

According to Yusmaniarti (2021), suggests that institutional ownership is a condition where the institution owns shares in a company. Institutional ownership can be in the form of shares owned by institutions or institutions such as insurance companies, banks, investment companies, and other institutional ownership (Yusmaniarti, 2021).

Hypothesis 3: Significant influence between Institutional Ownership on Tax Avoidance.

Tax Avoidance

Suandy (2011), tax avoidance is an important corporate strategy. Tax avoidance is one way to avoid taxes legally that does not violate tax regulations (Suandy, 2011).

Hypothesis 4: Significant influence between Independent Board of Commissioners, Managerial Ownership and Institutional Ownership on Tax Avoidance.

RESEARCH METHODS

This research method uses a quantitative approach to the formulation of associative problems in the form of a causal relationship. Quantitative method is a research method based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques are generally carried out randomly, data collection uses research instruments, data analysis is quantitative/statistical with the aim of testing predetermined hypotheses. (Sugiyono, 2017). The population used in this study are all real estate sector manufacturing companies listed on the Indonesia Stock Exchange in 2017-2020.

The sampling used in this research is by using purposive sampling method with a total sample of 56. The data analysis technique used in this research is quantitative data analysis methods including descriptive analysis, classical assumption test, multiple regression test, determination coefficient test & test The hypothesis is used in the SPSS (Statistical Package for Social Sciences) version 23 program as a tool to test the data.

RESULTS AND DISCUSSION

Research result

Analysis of the Coefficient of Determination

Table 2 Analysis of the Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.687[a]	0.472	0.441	1.38292

a. Predictors: (Constant), IO, IBC, MO
b. Dependent Variable: Tax Avoidance

Based on table 2, information is obtained that the coefficient of determination (R2) obtained is 0.472. This shows that independent commissioners, managerial ownership and institutional ownership contribute to Tax Avoidance by 47.2% while the remaining 52.8% is a contribution from other variables not examined.

Meanwhile, based on the test results (t test) obtained the following results:

a. Based on table 3 above, it can be seen that the tcount value obtained by the independent commissioner (X1) is -0.926 and the ttable value is ±2.00665. From these values, it can be seen that the tcount value obtained is -0.926 and sig 0.359. In accordance with the criteria for testing the hypothesis that H0 is accepted and Ha is rejected, it means that the independent board of commissioners partially has no effect on tax avoidance.

b. Based on table 3 above, it can be seen that the tcount value obtained by managerial ownership (X2) is 2,965 and the ttable value is ±2,00665. From these values, it can be seen that the tcount obtained is 2,965 and sig 0.005. In accordance with the criteria for testing the hypothesis that H0 is rejected and Ha is accepted, it means that managerial ownership partially affects tax avoidance performance.

c. Based on table 3 above, it can be seen that the tcount value obtained by institutional ownership (X3) is -3.649 and the ttable value is ±2.00665. From these values, it can be seen that the tcount obtained is -3,649 and sig 0.001. In accordance with the criteria for testing the hypothesis that H0 is rejected and Ha is accepted, it means that institutional ownership partially affects tax avoidance.

Table 3 Partial Regression Coefficient Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.011	0.906		-1.117	0.269
	IBC	-1.479	1.598	-0.118	-0.926	0.359
	MO	4.386	1.479	0.388	2.965	0.005
	IO	-3.370	0.924	-0.384	-3.649	0.001

a. Dependent Variable: Tax Avoidance

Based on table 4 above, it can be seen that the Fcount value is 15,474 with a significance value (p-value) of 0.000 and the Ftable value is 2.78. The results of the simultaneous test obtained that Fcount 15,474 is greater than Ftable 2.78, so at an error rate of 5% (α=0,05) it was decided to reject H0 and accept Ha. This means that independent commissioners, managerial ownership and institutional ownership have a simultaneous effect on tax avoidance.

Table 4 Simultaneous Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	88.779	3	29.593	15.474	.000[b]
	Residual	99.448	52	1.912		
	Total	188.227	55			

a. Dependent Variable: Tax Avoidance
b. Predictors: (Constant), IO, IBC, MO

Discussion

Effect of the Independent Board of Commissioners on Tax Avoidance

The results showed that the independent board of commissioners had no effect on Tax Avoidance. The existence of an Independent Board of Commissioners within the company is expected to increase supervision of company management so as to prevent corporate tax aggressiveness carried out by tax management and tend to commit tax evasion (Handayani, 2017). The percentage of independent commissioners above 30 percent is one indicator that the implementation of good corporate governance has been going well so that it is able to control and control the desire of the company management to make tax savings, reduce agency costs so that it influences companies to take tax avoidance actions (Ariawan & Setiawan, 2017). This shows that the high or low variation of tax avoidance is not determined by the independent board of commissioners variable. In other words, the high or low independent board of commissioners owned by the company compared to the number of existing

commissioners will not have a significant impact on tax avoidance behavior. This is because the independent commissioner can only supervise the performance of management, while decision making remains the authority of management. This is in line with research according to Purbowati (2021), independent commissioners have no effect on tax avoidance (Purbowati, 2021).

Effect of Managerial Ownership on Tax Avoidance

The results of the study indicate that Managerial Ownership has an effect on Tax Avoidance. Managerial ownership is the proportion of common stock owned by the management who manages the company. Agency theory states that managers have a great responsibility to company owners to optimize company profits (Prasetyo & Pramuka, 2018) large profits, the tax burden is also large, management is looking for tax loopholes in order to minimize the tax burden (Ariawan & Setiawan, 2017). According to Ariawan & Setiawan (2017), managerial ownership has an effect on tax avoidance, this is because managers have a great responsibility to manage the company and have a responsibility to increase company profits, so that managers are able to carry out their responsibilities to get rewards and bonuses for their performance compared to dividends. Managerial shares that are classified as small will not prevent management from carrying out tax planning which is called tax avoidance.

Effect of Institutional Ownership on Tax Avoidance

The results of the study indicate that institutional ownership has an effect on Tax Avoidance. Institutional ownership can increase more optimal supervision in an industry because it is considered to be able to monitor and control every decision and policy taken by managers so that it is expected to reduce the opportunity to carry out tax avoidance practices (Niandari et al., 2020). So it can be said that the more institutional ownership there will be, the smaller the action in carrying out tax avoidance. The greater the share ownership by investors, the stronger it is to urge managers to act in accordance with investors' goals (Pratiwi, Kristanti, & Mahardika, 2016). This is in line with research on institutional ownership that has a significant and positive effect on tax avoidance (Astri, 2016).

Effect of the Board of Commissioners, Managerial Ownership and Institutional Ownership on Tax Avoidance

The results show that the Independent Board of Commissioners, Managerial Ownership and Institutional Ownership have a simultaneous effect on Tax Avoidance, with a coefficient of determination of 47.2%. The existence of an Independent Board of Commissioners within the company is expected to increase supervision of company management so as to prevent corporate tax aggressiveness carried out by tax management and tend to commit tax evasion (Handayani, 2017). Managerial ownership will affect the performance of the company's management in optimizing the company. this can affect the viability of the company. Managerial ownership plays an important role in a company because managers participate in share ownership in the company (Wibawa, Wilopo, & Abdillah, 2016). Institutional ownership

can increase more optimal supervision in an industry because it is considered to be able to monitor and control every decision and policy taken by managers so that it is expected to reduce the opportunity to carry out tax avoidance practices (Sunarsih & Oktaviani, 2016).

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the results of research on the effect of independent commissioners, managerial ownership and institutional ownership on tax avoidance and the discussion described in the previous chapter, the following conclusions can be drawn:

a. The results showed that the independent board of commissioners had no effect on tax avoidance. The existence of an independent board of commissioners in the company is expected to increase supervision of the company's management so as to prevent corporate tax aggressiveness carried out by tax management and tend to commit tax evasion.

b. The results of the study indicate that managerial ownership has an effect on tax avoidance. Managerial ownership is the proportion of common shares owned by management who manage the company. Agency theory states that managers have a great responsibility to company owners to optimize company profits.

c. The results show that institutional ownership has an effect on tax avoidance. Institutional ownership can increase more optimal supervision in an industry because it is considered to be able to monitor and control every decision and policy taken by managers so that it is expected to reduce the opportunity to carry out tax avoidance practices.

d. The results showed that independent board of commissioners, managerial ownership and institutional ownership had a simultaneous effect on tax avoidance, with a coefficient of determination of 47.2%. The existence of an independent board of commissioners in the company is expected to increase supervision of the company's management so as to prevent corporate tax aggressiveness carried out by tax management and tend to commit tax evasion.

Recommendations

Based on the results of the research that has been done and after concluding the results of the study and the limitations of the study. So the suggestions that will be given by researchers, among others:

a. Further researchers can add independent variables that affect Tax Avoidance.

b. In future research, it is better to do research other than real estate companies.

c. Increasing the research time span by taking a longer observation period in order to understand more deeply about tax avoidance by the company.

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